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West Europe Report

(FOUO 38/81)



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ECONOMIC

BELGIUM

PROBLEMS OF SUPPORTING BELGIAN FRANC INCREASING

Brussels POURQUOI PAS? in French 16 Jul 81 pp 12-13

[Article by Jean Pourbaix: "Expiatory Victim of Financial Laxity -- The Last Days of the Belgian Franc?"]

[Text] For a few weeks now, the situation of the Belgian franc has once again been eroded, both by a very unfavorable foreign situation and domestic factors which are more debilitating than ever.

From abroad, our currency is handicapped -- the same as other currencies, but more acutely so -- by the monetaristic policy pursued with selfish obstinacy by the United States. This policy has in a way replaced the OPEC petroleum shocks (look at the gasoline price), and it is translated into American interest rates which have become extravagant and usurious, and which themselves foster a frenzied increase in the value of the dollar.

"This policy," writes the financial BULLETIN of the Brussels Banque Lambert, "largely eliminates the margin of the other industrialized countries to maneuver in adapting their interest rates to depressed conditions of economic activity, while not preventing their currencies from depreciating substantially with regard to the dollar."

Under the whip of the new increase of interest rates implemented across the Atlantic, with the prime rate currently perched at 20.5 percent, the dollar has registered a 44 percent appreciation relative to the Belgian franc since last summer's low point: from 27.78 Belgian francs in August 1980, the value of the dollar jumped to 40 Belgian francs last Friday.

It is true that 2 days before, the dollar had reached its highest rate with regard to the DM in 4.5 years, while the pound sterling in London slipped to its lowest level in 3 years relative to the currency of America. The same day, the French franc in Paris reached an historic low at 5.8250 French francs to the dollar, thus reaching its lowest point, according to the INTERNATIONAL HERALD TRIBUNE, in 23 years...

Franc Devaluating

As for the Belgian franc, the unhealthy moods resulting from the tenacious fever of the dollar and the swooning of its French namesake, would be much less dangerous for

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our currency if the latter were not placed in immediate peril by the profound degradation, at the very heart of the country, of the foundations which in principle support the monetary structure.

The peril endangering the franc is so immediate that an important real estate firm did not shrink from displaying a large advertisement in last weekend's newspapers, headed by this short sentence printed in headline type: "The franc is devaluating.." (in French in the French speaking press and in Dutch in the Dutch newspapers).

Not so very long ago, the authors of this alarmist announcement would not have escaped legal proceedings for having attacked confidence in the currency. In the past, some people were taken to court for less than that. Since then, we seem to have become more apathetic or more realistic.

The Voice of Cassandra

Moreover, this revealing "message" follows closely upon the dramatic picture of the state of our public finances painted by the Superior Council of Finance. The Council has estimated the budgetary deficit for 1982 at the mind boggling figure of 350 billion francs -- and this is not contested by Mark Eyskens. And the overall deficit which the public authorities will have to finance next year -- God knows how! -- was estimated at a mere 650 billion francs.

"Without a fundamental recovery," the Council rightly stressed, "the dynamics of the increase of the public debt burden* and of unemployment expenditures alone will bring the deficit to an explosive level in a short period of time."

And the wise men issued this warning: "The Superior Council of Finance wants to draw attention to the catastrophic depletion of the public finances and to the extreme urgency of bringing about a radical recovery."

This warning had been issued only a few days, when the National Bank of Belgium circulated a "weekly situation report" demonstrating the national and international repercussions of the advice formulated by the Council. By turning the attention of Belgian and international financial circles more strongly to the bleeding wounds of our public finances, as opposed to the carelessness, divisions and tomfoolery of our political leaders, the Council's anathemas have brought the bad reputation of the Belgian franc to a level close to crisis and have stirred up all the suspicions it was the object of on the exchange markets. And which the National Bank acknowledges.

Crisis Loan Evaporated

Indeed, it turns out that the operations to support the franc on the exchange markets by the Institute of issue have once again started to require the mobilization, day after day, of ever more abundant reserves, notwithstanding the (temporary) maintenance of the official discount and advance rates at 13 percent.

* A debt which will go from 84.6 billion francs in 1978 to 250 billion in 1982.

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Thus, between the beginning of June and the first days of July, the National Bank spent some 30 billion francs, 11 billion of which during the period of Monday, 29 June to Monday, 6 July. It was, once again, so much wasted effort balanced by an increased depletion of the country's substance.

Another possible deduction based on the data provided by the National Bank: already, there is apparently not a cent left of the 78 billion francs of the crisis loan which ended its career on 30 June!

In fact, instead of erasing part of the "slate" hanging behind Mr Cecil de Strycker's counter, the state was forced in the beginning of the month to resort to so-called indirect advances from the bank, to the tune of 5.5 billion francs, separate from the help obtained from foreign lenders. Which has brought the amount of these advances to 127.1 billion francs, very close now to their (elastic) ceiling of 130 billion... While waiting for the recovery which cannot be long coming for fear that the gears of the money press will become jammed.

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ECONOMIC

ITALY

GOVERNMENT, LABOR, MANAGEMENT ACCORD NEEDED FOR INFLATION

Social Contract

Milan IL SOLE-24 ORE in Italian 26 Jun 81 p 6

[Article by Carlo de Benedetti: "A Social Contract Is the Last Beachhead"]

[Text] The debate within the CONFINDUSTRIA [General Confederation of Italian Industry] leadership on the 1975 cost of living agreement.

This is the final part of the document on the cost of labor presented to the CONFINDUSTRIA Board of Directors by Carlo de Benedetti, vice-president and administrative delegate from Olivetti.

(1) If business is to run a Red Queen's race and achieve a zero net growth rate of real wages (we are talking about workers' actual take-home pay), cost increases will far outstrip inflation.

Let's take the case of a worker who was netting 700,000 lire a month at the end of 1980 at an annual employer's cost of 16.5 million lire, which is a wage about equal to the average of the workers surveyed by Federmeccanica. In 1981, the worker would have to receive (assuming inflation at 22 percent) 850,000 lire net a month in order to maintain his buying power at the same level. In this case, business would sustain a cost of more than 21 million lire or an increase of 28 percent, not 22 percent.

What are the causes? In the first place, there is fiscal drag. To insure a 22 percent net increase in wages, as in the first example, taxes alone will cause gross wages to grow by 26 percent. In the second place, there is a progressive scale for seniority pay. (Even under the present system, maintenance of buying power is subject to progressive scales; in times of growing inflation, with wage indexation coverage decreasing, costs are disproportionately increased.)

If the seniority pay agreement were repealed by referendum, the tax in the preceding example would cost more than 22.5 million lire with an increase of 37 percent, as opposed to a cost of living increase of 22 percent. Under the present system, if the weight of the cost of living increases is reduced but the total wage is maintained, obviously by increasing other pay categories, the result is paradoxically an increase in the total cost because the mechanism of progressive scales multiplies the effects.

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(2) This shows once again that the objective of containing or controlling more effectively the cost of labor cannot be met only by revising wage indexation alone. A revision of the wage indexation mechanism would be partly ineffective unless other things were done at the same time, namely: periodic revision of the IRPEF [tax on family income] curves, which at inflation rates over 20 percent cause inequities for workers and weigh heavily on costs and pay scales; a revision of the seniority pay scale, and above all elimination of the progressive mechanism. These revisions seem especially necessary if the threat of repeal is to be defused for the time being.

(3) In the last 5 years, business has managed to insure real wage growth at about 1 percent, but a high price has been paid for this achievement. While the cost of living has grown at an average annual rate of about 17 percent, the cost of labor per worker has jumped by more than 19 percent. And this includes the taxation of fringe benefits in 1977 and 1979-80. If this element is excluded, the gap between the cost of living and the cost of labor per worker increases 5 percent! This gap is doomed to widen dramatically in coming years unless all causes of distortion in various labor cost components are eliminated, along with automatic mechanisms that multiply inflationary factors and expectations. Tampering with only one element might ultimately cause further distortions and increase the cost of labor.

(4) Correction of the wage indexation mechanism absolutely must be accompanied by a set of coordinated actions: (a) reform of disability and unemployment compensation; (b) revision of tax and fringe benefit policy; (c) revision of the family allocation policy to protect family income more adequately; (d) revision of the double contract system, both collective and individual, as regards wages; (e) implementation of effective productivity agreements, because the problem is certainly labor costs in themselves, but the basic objective is to contain the cost of production.

(5) Coordinated action cannot be taken in a climate of social confrontation. No unilateral decision can produce any result in the fight against inflation. On the contrary, unilateral decisions may threaten eventually to worsen the situation and accelerate the inflationary spiral.

Take seniority pay, for example. If the referendum passed and the cost of living were reset, the industrial system would face in the first year 5.3 billion lire in higher costs, that is 7 percent more in labor costs. The subsequent implementation of proposals similar to those advanced at the Montecatini union convention would cost more than 8 billion lire, with a cost increase of 10 percent.

But the mechanism of indexing is no less dangerous under the present system. The so-called progressive feature causes very erratic variations in the cost of labor by amplifying the effect of every wage increase that is not in line with the increase in the cost of living.

This aspect is being especially emphasized as the 1982 contract renewal time approaches. Revision of unemployment compensation is therefore even more important and urgent than revision of wage indexation, but even this is being achieved in the context of a vaster agreement that takes into account everything, more or less, that affects the cost of labor.

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The use of precise analytical instruments has shown, for example, that transforming unemployment benefits into a kind of interest-bearing wage savings program in place of the outworn, unsettling dole and putting cost of living benefits back into the current housing allotment could radically change this mechanism first by maintaining more effectively the real value of deferred income and, second, by blunting the effects of wage variation multipliers, which periodically cause sharp strains on business costs.

Let us now see the reasons that a social contract is necessary for the fight against inflation.

(1) It is illusory to think of combating inflation without government participation. Most inflationary factors in Italy depend directly on what the government does, and, in the second place, the government controls some important factors that multiply and expand inflation.

An agreement between management and the union on some of the components of labor costs will achieve nothing unless the government's inflationary behavior can be halted.

It will not help especially to reduce cost of living increases by a few points if the government then adopts an irresponsible policy of raising public workers' wages, or gives in to blackmail by public employees' unions, or fails to control the State Participations budgets and uncritically increases the deficit, or loses control of the very size of public expenditures and the public deficit.

(2) To slow inflation and to keep from passing South-American type levels of "no return," the only feasible way is to seat government, management and the unions around a table and to draw up as soon as possible a joint effort against inflation. It would be a pact in which all would pledge themselves to prolonged, no holds barred action to halt everything that causes inflation in Italy and infinitely multiplies imported inflation.

It will not suffice to tax wage indexation for imported inflation, as some propose; it is necessary to make cuts, not only on wage indexation but especially on the much more serious inflation "produced" by public administration and state participation. Inefficient, costly corporations and parasitical structures "produce" and transfer this inflation throughout the system.

In conclusion, it is necessary to consider objectively the decision to denounce the agreement on wage indexation. Unless this act is intended to denounce and call into question the entire structure of labor costs and the inflationary mechanisms connected with it, the denunciation is a willful, useless act and probably a further cause of worsening labor costs and inflation. It also accentuates the rigidifying of positions, which can only block or at least postpone for months the launching of a review process that cannot wait any longer.

The denunciation of the agreement on wage indexation may yet have a meaning, but only if it is a part (and nothing more) of a general action inviting the union and government to review jointly the factors that cause inflation and make it intolerable for businesses to operate in this context.

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A unilateral denunciation of a single component can only elicit further unilateral denunciations: the request to abrogate the agreement on seniority pay clearly demonstrates this.

But no steps forward are being taken, only backwards. The risk is that no one will come out a winner and everyone will be a loser to uncontrolled inflation. The problem is too complex, and the unions and business cannot solve it alone without taking joint action. They and the government should be immediately invited to a round table discussion, where they may make concrete proposals and not just sterile affirmations of principle.

Wage Indexation: Another Look

Milan IL SOLE-24 ORE in Italian 26 Jun 81 p 6

[Article by Giancarlo Lombardi: "Denouncing the Agreement Is Not an Act of War"]

[Text] We must quickly clear the field of the emotional tension that the press has echoed in recent days concerning the debate on wage indexation and the cost of labor. If businessmen denounce the agreement, the country will not be in any more danger than it already is. Nor is it true that business's "guilty" choices would cause growing tensions and vitiate civilized behavior, because tension and the threat to public order result not from industrial relations but many other, more serious ills in our ruling class, from the lack of governmental authority, the lack of legitimacy in the policy-making class, the lack of moral leadership and the lack of renewal. It is a specious argument to claim that denouncing the agreement might be an act "against" the new government, because the problems that Senator Spadolini will have to face are of such a nature that a general strike cannot ease or worsen the emergency that has been talked about for years and that has become the basis of the incumbent president's program.

If we think about it coolly, the chance to renegotiate the social contract might be a new card for the new government to play, and the role of mediator between the parties might leave more room for the new government coalition to reach a solution that would not favor one party more than another but would be truly the best for the "common good."

The general interest and common sense require that the mechanism of cost of living allowances be overhauled but, obviously, without reprisals or the uncertainty that would arise from a dangerous vacuum, a state of widespread anxiety, and real or presumed threats. The task of the ruling class should therefore be to take this step in an enlightened, responsible manner; otherwise the debate will be fruitless and will wear itself out in a battle over highly ideologized principles.

And, to my profound disillusionment, this is precisely what is happening. It deserves some consideration.

It is useless to waste too many words on the insensitive arguments of at least some unionists: in recent months, union leaders have acted in confusion and virtually in conflict, so that it has been hard to see any definite policy emerging concerning cost of living benefits, and it has been even less possible to find a unified position being taken on the other side. Political forces have certainly not shown any clear direction or program.

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As for the government, the events of recent months have practically put it out of action on this issue, and we are dealing with political management that is obliged to resort to survival tactics from day to day rather than formulate policy. The action to be taken concerning the nation and the economic system has remained a promise of the Forlani government rather than policy, and the 3-year plan is still a statement of intent that may be shelved.

Why then be surprised that in this climate of rarefied responsibility businessmen should respond to the demands and experience of their profession and call public opinion to bear on one of the problems, albeit neither the first nor the last, of our economic and social system?

Why should one part of society, simply because of its role in the national economy, be charged with responsibilities that impede its function and exceed its competence?

The issue of the denunciation of the agreement as it has been presented to public opinion in an authoritative manner has, in my opinion, been poorly presented. Things are not as they appear or as some wish to make them appear. The action that business has taken is not "against" anything, nor is it an act of war (on whom? Why?); it is not an irresponsible act but one taken out of concrete necessity to launch a dialogue and negotiation that I sincerely believe will be in everybody's interest. Indeed, nowhere is it written that a revision of the present system of indexation, taken in the overall context of negotiations, should necessarily lead to punitive measures against wages.

I have some authority to say this because of my position in the organization to which I belong, Federtessile, which was among the first to pose the problem of the urgent necessity to modify the present system of automatic wage indexation. It is worth recalling that Federtessile posed the issue to CONFINDUSTRIA and then to the public in a very different way from that in which it has taken shape in commercial circles.

Our objective was to reach an early agreement with the unions, one that would meet the main problem facing our country, namely inflation, and to coordinate the contributions that the various parts of society would make toward solving it.

Room was also to be made within these negotiations for the issues raised by the union at Montecatini and the problems of Italian industrial competitiveness, which have often been brought up by management.

Negotiations with the unions have not begun, not only by their fault but also because CONFINDUSTRIA turned all its attention to the tactic of making a demand that could be risky but that they might get anyway; if it were rejected, the rejection would incur responsibility for worsening the situation.

Thus the issue as it stands today: yes or no on wage indexation. This is simplistic and unacceptable considering the issues at stake.

Wage indexation is not the main cause of inflation, nor is it the most serious problem for competitiveness in Italian industry. The quantity and quality of public spending, the lack of a true industrial policy, and the consistency of currency exchange are much more serious issues.

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But the cost of labor and productivity are real and important problems. They must be met realistically and innovatively. Solving them requires the action of the unions, business and the government.

We are now ready to begin negotiations without arrogance or ulterior motives. Could this not also lead somehow to rebuilding the morale of the country?

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ECONOMIC

ITALY

SPADOLINI ANNOUNCES ECONOMIC POLICY, CRITICS ATTACK IT

Synopsis of Economic Policy

Milan IL SOLE-24 ORE in Italian 1 Jul 81 p 5

[Text] Here is a summary of the economic portion of the policy agreements for the new cabinet, taken from the report by Prime Minister-designate Giovanni Spadolini, with the approval of the member parties of the new majority.

The current state of the economy has given rise to serious concern at the synergistic effects of rising inflation, our deteriorating foreign exchange position, and the ever-growing State deficit.

The strong recovery of the dollar has added further alarming inflationary pressures, with very serious repercussions on the balance of payments deficit.

Prices are rising at a rate of 20 percent per year, while the negative impact of the devaluation of the lira vis-a-vis the dollar has yet to be fully felt; it is fair to assume that the first impact of the decline in the exchange rate on inflation in 1981 will certainly amount to 6 percentage points.

The current deficit in the balance of payments, estimated for 1981 at 3 trillion lire, is greatly worsened. Not only did the overall currency balance for the first 4 months show a 3.5-trillion lire deficit, with the trade deficit verging on 6 trillion; in May alone the trade deficit hit 2.037 trillion, bringing the overall figure up to 7.7 trillion. Reserves over the same period dwindled by a staggering \$5.5 billion.

Employment levels have yet to feel the direct consequences of a situation which, no matter how you look at it, calls for unified economic policy guidelines. The ranks of the unemployed tend to grow by reason of failure to absorb the rising tide of new entrants into the labor force (estimates show that unemployment rose by 0.6 points in 1980; 1981 forecasts say it will rise another 0.3 points, and the Income Supplement Fund in the first quarter of 1981 rose by 138 percent over the same quarter in 1980.

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Forecasts for total real investments in 1981 call for a slight decline (- 0.4 percent), accentuated in the industrial sector (- 3.5 percent). Furthermore, even investments in the Mezzogiorno seem to point to a relative slackening, despite increased expenditures there as emergency aid to the earthquake-stricken areas.

Against such a background, the slight (0.3 percent) rise in the national income for the first quarter looks far more like a reflection of the endemic inflationary thrusts than like the fruit of economic policy.

What is causing genuine anxiety, though, is the swelling tide of red ink in the public sector; in the first 5 months of this year the requirements of the State sector reached the astronomical figure of 22 trillion lire, twice what they were for the same period in 1980.

Even allowing for the effect of the cutbacks recently proposed in Parliament, the experts calculate that, before the year is out, that figure will top the 37.5 trillion the Forlani government used, for the simple reason that you cannot get the State's books back in balance by cutting back or delaying investment expenditures: those are figures totally incompatible with any serious policy for fighting inflation.

Monetary policies in the United States and in the major European countries will show no signs in 1981 that would provide grounds for hopes of any letup in international pressure on the lira.

Needed: A Pact To Fight Inflation

The time remaining to mount one last effort to implement a policy that is not merely and drastically one of draconian cutbacks, one that stands by the growth potential called for under the 3-year plan, is swiftly running out; it is, however, the duty of the government and of the political parties that support it to make every effort to restore investments and employment through an extremely tough preliminary move, via immediate policies and action designed to allow for recovery of the preconditions for a strategy which, as it cushions the impact of inflation, will still keep alive the nation's development potential, partly through a gradual loosening of the stifling noose of the balance of payments.

Only an approach combining extreme firmness and absolute rigor will enable the government to keep its pledge to push ahead with the medium-term plan now before the Senate.

Achieving a coherent structure embracing the public budget, monetary expansion, and international conditions which will not have a profoundly untoward effect on employment and Mezzogiorno development presumes an active role for Parliament and the labor unions, designed to clamp down on waste, mismanagement, parasitism and sinecures -- not to mention cutting back sharply on the current levels of government spending -- and to encourage protection for directly productive incomes and for the investments essential to the future of the national community.

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It is therefore essential that the labor unions pledge their contribution to the fight against inflation, so as to take care that policies designed to slow price rises do not fall too heavily on employment and development in the Mezzogiorno.

There is no dodging the gravity of an economic situation that demands harsh and fateful decisions. The primary commitment, the one that will govern the outcome of whatever else is done, is still that of forcing the national budget back within the confines mapped out in the 3-year plan through whatever measures are requisite.

This will mean cutting back the total internal requirement to 37.5 trillion, by means of action to remove the deficits in the sectors of health, welfare, income transfers, and education. It is absolutely not advisable to put the nation's books back in balance by means of cutbacks or postponement in capital expenditures vital to the development of the Mezzogiorno; any such cuts or postponement would simply pop up again as an unwelcome burden on the 1982 budget. These measures are of course understood to be supplementary to the provisions made by the Forlani government and now pending in Parliament.

The new government will have to negotiate with the unions over their contribution to the fight against inflation, by means of setting an agreed-upon rate of inflation as a ceiling below which the several contract variables will be held, including controlled prices, rates, and labor costs; within this framework they can examine the matter of cooling down the indexation machinery.

Even so, owing to the extreme difficulty of the situation and to the time such operations must take, it will be necessary to maintain monetary conditions such as to allow protection of the currency and monetary stability. This way we can ward off an even graver monetary and inflationary crisis, massive enough to postpone for many years any prospect of expanding our productive base or our production, to say nothing of economic recovery for the Mezzogiorno. Any relaxation in such policies could come about only in response to substantial improvement in the overall economic picture. Particular attention must be paid to credit conditions for small and medium businesses.

The 3-Year Plan

The new government shows that it sees a close interconnection between the goals of steadily reducing inflation and of support for the higher investment levels designed to increase employment and to narrow the gap between the North and the Mezzogiorno, in accordance with the policies and on the scale of magnitude set forth in the 3-year plan and in its enabling legislation.

Vitally needed is a grand design for planning centered on those investments which will make the Italian economy less dependent on imports, without narrowing our openness to the world outside, but aimed at getting the various parts of the country to buy products from each other.

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Given this approach, we could pursue the basic goal of protecting jobs in terms of productivity, rather than welfareism. Rigorous standards for management must be imposed upon those productive sectors dependent upon the public budget, and there must also be a comprehensive plan for encouraging research and technological development, and expansion in the vanguard industries which clearly are feeling less competitive pressure from the developing countries. To achieve this, the plan calls for turning to the international money market for financing eventually, but only when conditions include a stable currency and when an overall picture reflects an economic policy closely adherent to international trends.

The first commitment under this guideline will be introduction of the finance bill at the end of September; that bill will set the general tone for 1982.

Debate on the bill will provide the opening for a first step toward that line-by-line scrutiny and resetting of priorities in public spending called for under the 3-year plan. Specifically, it will necessitate strict interpretation of the new accounting law (article 4, comma 8 of PL 468), to ascertain that there is no possibility of any increase in current deficits -- a safeguard written in to block any spending not actually covered (by new revenues or reduced expenditures) -- and applicable to the finance law itself.

In view of the foregoing, it will be necessary to write the spending ceiling into article 1 of the finance bill itself, so that any changes in spending effected in the course of debate in Parliament must stay under that ceiling; to get on with rapid stabilization of public spending it will also be necessary to alter the law on local and regional finances so as to reduce sharply the level of transfers of national revenues, with provision of some autonomy in tax decisions for local governments; to put at least a 1-year freeze on health-connected spending in relation to the expected rate of inflation through cutbacks in coverage for small (pharmaceutical and clinical) risks, except for the lowest income groups, and moving ahead on streamlining management.

Measures will also be introduced to standardize management procedures in the independent social security agencies (INPS).

Economic policy for the short run will be one for paring the public budget down to the dimensions set forth in the integrative note submitted to the Senate, and for currency expansion to the levels required for the stability of our foreign exchange and to slow the decline in willingness to hold currency: the one true guarantee of effectiveness and of adequate backing for the fight against inflation, which today threatens to overwhelm the country.

Regular Surveys of the Economic Situation

The emergency nature of the present phase demands unremitting attention to the conduct of the war on inflation, as well as to the overall economy. There must be machinery for periodic checks on vital signs.

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By so doing, we shall achieve constant visibility for whatever action government may take, as we grasp it and follow it as a whole in relation to the shifts taking place among the various controlling factors in the economy. To this end the new government must undertake an economic survey and present its findings in a report every 6 months; this will give us all a chance to get a critical look at the overall situation, and to make our own assessment of the policies pursued and of the behavior of all three responsible parties: government, labor, and management.

The Dollar-EMS Link

In these times it is vital to push on with a restoration of sound health to the nation's overall economic situation, and with a sharp reduction of the inflationary gap between Italy and the other European countries. This troublesome state of affairs is partly a reflection of the obstacles encountered in our pursuit of the Community-wide standard policy for which Italy has fought since the outset.

The new government will have to busy itself in finding ways to maintain and strengthen the internal cohesion of EMS-member currencies. In this context, it becomes not only legitimate, but obligatory to establish a common policy for all European countries vis-a-vis the United States, through a possible concerted initiative by the Community nations. It would be a good idea to urge the United States to adopt a monetary policy that does not place an additional burden on the already difficult position of the European nations, and one that does not wind up merely "exporting inflation," which is what is actually happening now. (We shall have more to say on this topic in the last section.)

There will also be provisions to bring our currency laws into line with EEC standards in matters of international capital operations, so as to arrive at a suitable liberalization of current regulations.

Labor Mobility and a Revival of Professionalism

Getting our productive system back into healthy shape and recovering its competitive stance in the international field, through processes of plant and corporate reconversion and restructuring, will require the availability of new tools, some of which must be designed and put in place by legislation, that will make it possible to lay the foundations for real mobility, in-house and inter-corporation, for the work force.

Equally important are measures to upgrade professional attitudes and commitment to the job, as well as more flexible patterns of employment designed to satisfy the growing demand for both in the market, either openly or in terms of unreported employment in the underground economy.

Along with these prescriptions, the new government will have to pledge itself:

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to act to encourage the swift and final approval of the pending bill on hiring and placement reform, labor mobility, and the wage supplement fund, all of them giving proper attention to the individual application rolls of young people seeking employment in small and medium businesses and in the crafts, and to a reintroduction, among the criteria for selecting workers for "mobility" status, of "the company's technical and productive requirements";

to adopt measures aimed at upgrading occupational status and skills, beginning with legal recognition of intermediate cadres through modifications in article 2095 of the Civil Code;

to encourage institutional definition of more flexible patterns of employment, with particular emphasis on part-time work, as an interim step pending regulation and the restoration of order among the manifold forms of "moonlight" or "underground" employment.

As a part of government policy to protect and expand employment, new steps will be taken in the field of orientation and training for the young and for workers on mobility status, and every encouragement will be lent to an adequate system for correlating educational achievement, vocational training, and the labor market.

Industrial Policy

Industrial policy must continue, in line with implementation of the medium-term plan, to heal the trouble-spots so as to stanch the inefficient use of resources, and to develop the supply of high-tech products, modern services, infrastructures, and opportunities.

Fitting neatly into this picture is the creation in the Mezzogiorno of conditions conducive to the consolidation and replication of the recent healthier and more orderly industrialization of certain southern areas, and to attracting foreign investment.

Special encouragement and incentive should be provided for expansion of the components and electronics industries, and of telecommunications and data-processing services.

During the current emergency, the new government must push on with the work of restoring economic, industrial, and financial health to the steel, chemical, and aluminum industries, taking a multinational approach to the problem.

It must also move expeditiously to push the already launched program of support for technological research, from which small and medium companies, on their own or in consortia, must be made eligible to profit as well.

A bill will be introduced shortly to replace PL 675. Its objective will be to streamline procedures, to place more responsibility on businesses, to divorce tax concessions and credit relief from sector-wide plans,

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and to establish conditions that will guarantee an adequate flow of financing to small and medium businesses and their consortia.

Industrial policy will turn on improvements in the utilization of production factors rather than on sector plans. Sector plans will still have to be formulated and utilized for more general purposes under the 3-year plan.

Energy Policy

The new government must deal with the energy problem decisively and on a top-priority basis. That will take a broadly comprehensive program that will enable us to make up for lost time.

The decision to pick up the nuclear option is an urgent one, in this context, and must be implemented without delay. Decisions on plants and sites will be made by the executive branch, within the scope of its responsibilities, within a very short time. Site selection will be accompanied by the adoption of the best available security measures and by the most appropriate forms of compensation once sites have been selected. In this context, the government is committed to give the green light to at least four thermonuclear plants.

A realistic policy for coal will be formulated at once, based on practical feasibility, and an immediate start will be made on the vitally needed infrastructures, while putting an end to the persistent penalization of coal as opposed to fuel oil.

Methane deliveries from Algeria will be channeled to the Mezzogiorno on a preferential basis.

As for renewable energy sources, alternative energies, and energy savings, proposals will be presented for various kinds of incentives, and full backing will be given to pertinent legislation now pending in Parliament.

Early this summer the national energy plan (PEN) will be promulgated; it will be the reference document for all the nation's energy policy, along with the kindred decisions on industrial, housing, agricultural, foreign, and fiscal policy.

At the heart of our energy policy will be a determination to go ahead with restoring balance to imported energy sources in relation to the areas and patterns of acquisition of such energy, with a view to the greatest possible improvement in our country's security and independence.

State Participation Policy

The prime requisite in this sector is still a restoration of efficiency to strike at the root of uneconomic management, which has thus far hampered new investments or rendered them very costly, even when they involved simple technological updating, and has eventually led to the obsolescence of plants and the destruction of jobs.

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The era of rescue operations must come to a final end, since publicly owned industry has demonstrated its incapacity to handle them and since their economic and social cost has turned out to be excessively onerous when balanced against the few advantages in terms of the jobs, often only temporary, they managed to provide.

Funding must be arranged speedily for the three management agencies in connection with the updated reform programs, eliminating the chronic malaise diagnosed by the bicameral commission.

The government will take pains to see that the agencies pursue adequate policies in the areas of internationalization, investments, recourse to the money market, technological updating, and non-energy-intensive production.

New measures for better definition of government guidelines and for management supervision, management policy measures, definition of the autonomy and responsibilities of individual managers, and budget audits will be submitted by the new government very soon.

A detailed and specific analysis by sector and by geographical areas of agency activities, coupled with an assessment of their profitability, will provide a basis for forming sound judgments and for carefully weighed and considered allocation of funds, and for deciding what can safely be returned to the discipline of the private sector and the market.

In cases of return to the private sector, there will be prior inquiry into the reliability of the principals, the existence of an investment program, and of the conditions for economic recovery and for sound management.

This commitment should tend toward better health, toward a recovery of domestic and international market shares, toward technological modernization, and toward a fresh start and new growth in the sectors whose trade deficits are moving toward unacceptable levels despite the enormous investments poured into them over recent years. No less a commitment will be made to the recovery of the equally vital sector of Italian telecommunications, now in deep trouble.

Final Portion of Program

Milan IL SOLE-24 ORE in Italian 1 Jul 81 p 5

[Text] Here is the final portion of the new government's economic program. The main body of our report appeared in yesterday's edition of IL SOLE-24 ORE.

Mezzogiorno and Earthquake Zone Policy

The Mezzogiorno today presents a picture of a region racked by tensions, but one where those tensions run side by side with phenomenal vitality in agriculture and industry alike, particularly among small and medium businesses: there has been nothing like it before. At the same time,

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There must be some sort of intervention to hold down spending by local governments in sectors other than housing construction and city planning, with a consequent increase in funds earmarked for these purposes. Communes must find more funds for housing for the homeless.

To make the housing policy work, in addition to measures to support real estate loans, there will be a bill establishing a home savings system: the bill will issue real estate certificates to raise funds which will then be earmarked exclusively for housing construction.

As for city planning, the costs of housing tract concessions will be reduced and made standard for the whole country. Solutions will be sought to the problem of standards for setting compensation rates for condemnation proceedings.

Standards for increases on rent-controlled housing will have to be clarified. There will have to be some rationalization of the assistance fund established under PL 392. Care must be taken to protect landlord rights to recovery of availability of housing premises. As for public housing construction, there is hope for speedy debate on the plan to revamp the Public Housing Authority (IACP) or for redemption of houses on which mortgages have been foreclosed.

Special attention must be given to the problem of land reclamation, in coordination with the bills for that purpose already before Parliament.

Credit Policy

Improving the efficiency of our credit system is one of the key elements in powering the tools of economic policy and for the orderly functioning of the entire economic system.

To this end the government believes it vital to move as swiftly as possible toward effective equalization of loan conditions between public and private banks, in line with EEC guidelines.

Farm Policy

The cardinal aim of agricultural policy, under the guidelines laid down for the medium term by the Plan, will be to reduce the shortage of farm and food products. This will involve adoption of measures designed to:

get exports of farm and food products back to healthy levels and review import quotas for the various countries so as to avoid privilege or unfair discrimination;

develop the most laggard areas of farm production through encouragement and support for programs specifically tailored to modernize and convert production and to expand the supply management organization. With this as its working structure, the government pledges swift approval of measures calling for further appropriations for agriculture, embodied

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the ancient disparities between one Southland region and another have been greatly exacerbated, and a whole new set of complex and difficult urban problems is beginning to surface.

While all this is happening, the Mezzogiorno stands on the threshold of a new era in its history: along with the new phenomenon of internal differentiation, there is a fundamental change afoot in its relations with the rest of the nation and with the international economy.

Two guidelines for action thus become essential, and we must move along those lines:

- a. reassert our commitment to industrialization, improvement of services, and support for Southland agriculture along the lines of European integration;
- b. closer attention to the internal differences in the Mezzogiorno and to the new realities there, for better and for worse, so as to tailor overall action in support of Southland development to those realities.

These requirements can be dealt with through timely approval -- embodying suitable modifications Parliament may see fit to make -- of the extraordinary intervention bill introduced by the Forlani government.

There will be a profusion of special commitments to the quake-stricken areas; approval of the aid bill for these areas provides a working tool. The new government will have to keep an eagle eye on aid delivery, and submit regular reports on progress, as well as propose whatever direct intervention seems advisable.

The whole idea of this is to monitor progress in the following: the process of housing adjustments, restoration of urban areas (particularly in and around Naples), reconstruction in the hardest-hit areas, provision of municipal services, particularly water and sewers, regional government action to foster industrial recovery, and coordination among the programs of the various institutions active in the area.

Housing Policy

The government intends to respond to the extremely grave situation in the housing industry when it presents a set of all-encompassing standards designed to expand the sector, with special attention to tax and credit regulations, streamlining procedures, pre-planning and availability of sites and, above all, a definitive recasting of materials standards.

For the moment, the government is hoping for expeditious debate and passage of the housing construction recovery bill now before Parliament which calls for additional funding for PL 457 (the 10-year Plan) and PL 25, and for establishment of a fund for purchase and urbanization of selected sites, with special emphasis on the larger communes, for which coverage must be guaranteed in real terms.

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in the proposed PL 1407, already approved by the standing committee in the Chamber of Deputies;

salvage and restore the inland areas, and encouraging investments to that end to foster productive land use suitable to the nature of those areas.

In the work of amending and updating Community agricultural policy, the government -- following the guidelines already laid down in Parliament -- will keep firmly in mind the need to expand Italy's farm production and will, furthermore, closely scrutinize the conditions set for expanding the Community to admit Spain and Portugal.

Lastly, there will be a swift wrapup of Parliament's debate and approval of the farm credit reform bill, with due consideration of the National Economy and Labor Council (CNEL) guidelines in the matter.

Implementation of the National Health Service

All predictions for health spending have, practically speaking, gone by the boards. The ceiling set on it have long since been exceeded. In the course of 1981 it is certain that spending will go far beyond the appropriations set down in the budget.

The deadlines for implementation have also expired. Investigators are still reporting shocking waste, grossly swollen bureaucracies, and practical difficulties in meeting the demands of protecting the nation's health, thus giving rise to a national health service shamefully far below the civil requirements of the nation. As a result we face a situation in which we must, at one and the same time, cut down on waste and steadily upgrade the efficiency of the service. What this amounts to is getting the National Health Service fully implemented, and consequently stepping in with adequate measures to control the amount and channels of spending, so as to halt the processes that produce these mounting deficits.

At the same time, all expansion in support structures must be halted, so as to insure the efficiency and excellence in delivery of services that were the reasons for establishing the National Health Service in the first place, as part of a view of social security indispensable to our hopes for an advanced democratic society.

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Centro Europa Criticizes Plan

Rome L'ESPRESSO in Italian 5 Jul 81 pp 151-153

[Article by Antonello Talamanca: "This Plan Sounds Some Sour Notes"]

[Text] Spadolini's economic policy is based on Giorgio La Malfa's 3-year plan. But is it worth the trouble? Centra Europa says that it is a mistake: the plan is wrong and it is of little use.

Rome. Is Giovanni Spadolini doing the right thing in basing the new administration's economic policy on the 3-year plan drafted 6 months ago by Giorgio La Malfa? This is a question which many people are asking themselves during these final days of the negotiations over the new cabinet. That include especially those who, at the time, expressed some uncertainties, if not harsh criticisms, on the La Malfa plan. In addition to the Bank of Italy, which had expressed doubt as to the identification of the plan's macroeconomic framework, economists of the stature of Luigi Spaventa and Lucio Izzo proved to be confused, if not disconcerted.

Centro Europa has therefore decided to put under the electron microscope something that seems to be destined to become the "word" in economic policy over the next several years: it has subjected the plan to a complete check. And the first results are much more discomfoting than one might have expected. Because of its contradictions, because of its lack of coherence, because of the vagueness of some indications and above all because the instruments provided for it do not permit the attainment of the predetermined goals, the plan simply does not work.

The workers and researchers at Centro Europa agreed that the plan was not right even before it was drafted; this is something that is more unique than rare in documents of this type and there is no indication as to any trend in the development of the economy, nor in the effects of the action proposed. Now Centro Europa itself has been forced to work the whole thing up from the beginning. And here are the results.

The proposed main line of the La Malfa plan is to pursue a vast investment program. In particular, the plan was to make it possible to increase public spending through investments of almost 16 trillion in 3 years, to be made up through an equal reduction in the current public deficit. This amounts to cuts of more than 47 trillion; together with greater spending for investments, as a matter of fact, the plan also calls for a reduction of about 31 trillion in the anticipated revenues.

This Is No Way To Beat Inflation

What are the effects of this maneuver on the economy? From the viewpoint of holding inflation down, the effect is almost nothing. While the development trend makes us think in terms of a consumer price rise of 55.5 percent over 3 years, prices would go up 54.5 percent with the plan, in other words, with a reduction of one percentage point in 3 years. The same can be said for employment. As a matter of tendency, new jobs, which would be created over a period of 3 years, would amount to about 430,000 while the plan could bring that figure up to 500,000; in

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other words, only 70,000 jobs more. The effect on economic growth is also a little more than zero. The real domestic product should go up 4 percent in 3 years and if the plan is implemented, it would go up 5 percent, in other words, only 1 percent more. These modest results would furthermore be obtained by smashing those very same "restrictions" which are recognized by the plan. First of all, the restriction represented by payments going abroad: the balance of trade would decline by 14 trillion in 3 years. But fixed investments, to be sure, are destined to go up 23 percent against an increase trend of only 9.5 percent. In other words, the only well-defined maneuver in the plan (the balance policy) looks inadequate right away when it comes to attaining the "medium-term objectives" in the five macroeconomic magnitudes indicated by the plan itself: real growth, inflation, employment, current bottom line in balance of payments, and development of the South.

This Is Not a Realistic Blueprint

But even if the results were better, there is some doubt as to the real feasibility of this balancing act. The plan talks in general terms about cuts in current public spending. What kind of cuts? Right now, two-thirds of current public spending are earmarked for earnings and retirement pay while half of the remaining portion is destined for the payment of interest on the public debt (to a great extent BOT [Treasury Bills]), with the rest going for the procurement of goods and services. This, to say the least, is a tough maneuver. It suffices here to make some calculations. If, to give the reader an example, a cut were to be made in retirement pay, we would have to assume a real reduction of retirement pay by 30 percent while the current trend points toward an increase of 18 percent (still within the entire 3-year term). If, on the other hand, the action were taken on public earnings (but the plan seems to say precisely the contrary when it talks of reclassifying public employment) the reduction would still be 30 percent in real terms, against an expected increase trend of 12 percent. How can one reconcile this maneuver with the assertion, contained in the plan, regarding the increase in public earnings to move them closer to those of the private sector, increasing pensions of public employees, and improving family allowances.

But the heavy reduction in revenues also looks unrealistic. Reducing revenues by almost 31 trillion would mean not wiping out the entire "fiscal drag" (the more than proportional increase in the revenues due to inflation) but would also in fact transform all direct taxation from a progressive system to a proportional system. Furthermore, the relief would be even greater, gradually, as we implement an effective policy of going after tax evaders which obviously could yield new revenues.

But apart from the "accounting" problems in reconciling the various demands for spending and revenues stated in the plan, there are also problems of effective feasibility. Is a speedup in public investments possible in concrete terms? The sector plans in the La Malfa document (disavowed, by the way, by the minister of the budget and defined as autonomous contributions of the individual ministries) do not take into account the effective spending and implementation capacities of the government agencies. Normally, between the moment when expenditure is

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authorized and the moment the money is actually spent, we have an interval averaging 2 or 3 years. And the expenditures proposed in the plan are those whose authorization still appears far off in the future; we would thus have to wait 4, 5, or perhaps even more years. In the meantime, everything remains what it was.

Plan's Budget Policy
(In Thousands of Billions)

1981-1983

	Spontaneous tendencies (Centro Europa estimates) (A)	La Malfa Plan (B)	Differences (C) = (A)-(B)
1. Current revenues	641.9	611.2	-30.7
2. Current expenditures	695.2	647.7	-47.5
3. Current gap (1-2)	-53.3	-36.6	+16.7
4. Investments	78.3	94.1	+15.8

And Its Effects on the Economy
(Percentage Variation Over 3 Years in Values at Constant Prices)

1981-1983

	Spontaneous tendencies (Centro Europa estimates)	La Malfa Plan	Differences
Gross domestic product	+4	+5	+1
Private consumption	+2	+1	-1
Gross fixed [capital] investments	+9.5	+23	+13.5
"Goods and services" balance*	-44,000	-58,000	-14,000
Consumer prices	+55.5	+54.5	-1
Total employment**	+430	+500	+70

* Billions of lire

** Thousands of units

The first column in both tables shows the spontaneous trends in the Italian economy right now. The second column on the other hand shows what the effect of the 3-year plan of Giorgio La Malfa would be on those same variables if it were to be implemented.

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POLITICAL

FRANCE

SOURCES, RESULTS OF CGT-PCF FRICTION VIEWED

Paris LE NOUVEL OBSERVATEUR in French 4 Jul 81 pp 28-29

[Article by C.-F. Julien: "CGT: The Plan of the Tough"]

[Text] Officially, the claws have been pulled in. But the leaders are sharpening theirs.

The CGT [General Confederation of Labor] is making somewhat feverish preparations for the special meeting of the National Confederation Committee [CCN] to be held on 7 and 8 July. Officially, all is calm at 213 rue de La Fayette: after all, is not the CGT, as Georges Seguy put it, "one of the components of the majority?"

Appearances are deceptive as the about-faces made by the leaders of the CGT -- who suddenly rallied to Francois Mitterrand, then to the Mauroy government, following the appointment of four communist ministers -- did not disarm internal opposition. On the contrary. The "oppositionists" or the "unitarians," as they like to refer to themselves, do not accept these reversals, both for political reasons and for reasons of credibility.

The political reasons are rather obvious. The "unitarians" apparently do not want the CGT to become the drive shaft of the new government, but they want the major French labor group to allow the Mauroy administration to effect the change. And they have a few doubts. To put it plainly, the CGT has never been as closely tied to the PCF [French Communist Party] as it is today. And in this respect, the "oppositionists" seem very close to Edmond Maire's analysis: the PCF has two irons in the fire. The PCF is in the government by necessity: thus, it is the CGT which will have to become temporarily the spearhead of the working class. The PCF press will grant it more space and very soon, the group at the rue de La Fayette will have to issue challenges which might one day strain relations with the government.

"Anyway," one militant commented, "even if the pessimistic scenario were to be retained, developments will be slow. The first skirmishes will take place at the start of the new term; then, we will have to wait for the Communist Party congress in February, followed by the 41st congress of the CGT in June 1982. At that time, strategies will have been redefined and roles redistributed."

A Machiavellian vision? Perhaps. But for the "oppositionists" things are clear: in spite of appearances, the CGT leadership remains on the line defined in the summer of 1977 -- at the time of the assessment of the "Common Program" by the PCF -- and in fact, the "tough ones", Henri Krasucki and Michel Warcholak, have already

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taken hold of the apparatus again, while Georges Seguy remains at the secretariat general to reassure the various partners.

But the "Stalinists" may well be miscalculating the facts of the new situation. In the enterprises, the workers do not feel like launching themselves into an adventure to help the PCF regain its electorate. Moreover, the "tough ones" are underestimating the consequences of the internal crisis of the Communist Party on the CGT, and the trauma among the militants caused by the CGT reversals. "Friends of Fiszbin and Althusserians," stated one "unitarian," "are discovering that they have been on the wrong track; and they are explaining that developments will not occur because of a tactical battle within the PCF but through a mass debate within the CGT."

As for the CGT reversals, they are proof of the basic problem of internal democracy within the CGT. In December 1980, the CCN -- a non-elected leadership structure -- decided to "go with Georges Marchais." Suddenly Francois Mitterrand and the Socialist Party became the enemy to be cut down because they were hunting on PCF land. But when the socialist candidate achieved an astonishing score, the leaders of the confederation -- still without consulting the rank and file -- suddenly decided to support him and, later on, to support his policy, which they had always opposed. Moreover, the curves are no longer negotiated very skillfully: time is short, the leaders allow themselves to be carried off every which way and the militants can't make head or tail of it.

The "unitarians" have recently published a very instructive short document in this respect: "The CGT, the Elections and the Changes, December 1980 - 29 April 1981: the Neglected Debate." The 28 pages of this pamphlet, of which 2000 copies were circulated, are already having some effect and the "protesters" want to take advantage of the special CCN meeting to start a real debate. "At the executive committee meeting of 23 June our request for the organization of union meetings prior to the October meeting of the CCN was rejected. Hence, we will return to the attack. But especially, in order to prepare the spring congress, we are demanding congresses of all unions, and consequently the sharing of mandates, the opening of opinion columns in the press and the circulation of amendments."

Sales of LA VIE OUVRIERE, the major CGT weekly, have dropped below the 5000 copy level; the militants no longer manage to sell stickers for the construction of CGT offices in Montreuil; the results of the union elections continue to be disastrous. But the leaders want to believe that this is only a bad period and that in the end the tough line will be accepted.

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POLITICAL

SPAIN

PSOE SENATOR EXPLAINS OPPOSITION TO ENTRY INTO NATO

Madrid CAMBIO 16 in Spanish 29 Jun 81 p 53

[Article by Fernando Moran, diplomat, PSOE senator, and author of "A Foreign Policy for Spain"]

[Text] Bloc politics is a historic creation. As an organizational form it is unsatisfactory and extremely dangerous. Although the bloc-based balance has averted war, it is creating tensions that can lead to a conflagration--above all, in the current situation in which the two superpowers have lost the ability to control and measure the escalation.

If we are not to favor bloc politics we must under no circumstances enlarge the blocs. Spain's entry into NATO would mean increasing bloc politics on both sides. It would therefore be an anti-detente action. And the fact is that Spain, to consolidate its democracy under difficult circumstances, needs a reduction of pressures from extreme postures. Thus, not only from the general standpoint of peace, for reasons of survival, but also from that of our political constructional needs, our entry into NATO would be negative. The United States' current position of seeking to globalize every situation is an anachronism. Globalization is to consider any regional situation exclusively from the standpoint of a presumptive overall strategic perspective.

This approach would be appropriate under a total hegemony of the two superpowers. But this is no longer the case. The bipolarity of power is a thing of the past. There are many situations--the Shiite revolution in Iran, the Iranian-Iraqi war, and so forth--that cannot be reduced to an accounting of power between the two superpowers. Entry into NATO is anachronistic today. It amounts, as has been said of military high commands, of thinking in terms of an obsolete situation. Spain, throughout its history, has fallen into this error of fighting battles of the past. Therein lies our famous chronic outdatedness.

NATO would appreciably increase neither our military nor our diplomatic covers, and would increase our risks. The NATO defense area--Article 6 of the North Atlantic Treaty--does not include North Africa, where we have scenarios of potential conflict and tensions. The Canaries would of course be included, but their inclusion in the NATO zone and their consideration as an important point in a global strategy would increase the archipelago's political risks.

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Even if initially Spain were not to sign the NATO nuclearization protocol, it would be impossible for the United States in the intermediate term to insist on deployment of Euromissiles by its other allies while granting special treatment to Spain. The second-generation medium-range missile deployment requirement will necessarily include Spain. Note also that the Alliance is oriented toward potential situations in the Mediterranean, Libya, etc.

NATO guarantees neither the automatic modernization of our armed forces nor the continuation of civil government in power without problems. In any case, just what does modernization mean? If it means raising the technical level of our armed forces to that of the most advanced NATO forces, it would mean--one need only read the charts of the London International Institute for Strategic Studies--an increase of some 40 percent in our defense expenditures. No Spanish finance minister -- neither UCD [Democratic Center Union] nor CD [Democratic Convergence]-- can accept this. We would be limited as were other NATO countries--Portugal, for instance, and Greece--to modernizing our armed forces within our means. Whether in NATO or out of it.

As regards guaranteeing our democracy, Portugal was in NATO from its inception, and was a dictatorship with concentration camps, carrying a genocide war in Africa. The two autocratic and fascist coups took place in Greece within Nato. The same thing occurred in Turkey. NATO has announced an increase in aid to the Turkish military junta.

In neither of our general elections--1977 or 1979--was the question of entry into NATO submitted to the voters for decision. Article 92 of the Spanish Constitution permits the referendum for questions of transcending importance. Is there a more transcending question than that of our entry into NATO, which would mean a change in Spain's traditional position and the subordination of our entire foreign and defense policies to it? Not to convoke a referendum would be to adopt an attitude contrary to the democratic concept. It would shatter the very minimum set of values needed to consolidate our democracy and would demonstrate a historic insensitivity toward the mentality of the Spanish people.

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POLITICAL

SPAIN

DIPLOMAT, AUTHOR EXPLAINS SUPPORT FOR ENTRY INTO NATO

Madrid CAMBIO 16 in Spanish 29 Jun 81 p 55

[Article by Jorge Fuentes, diplomat and author of "The Line of Detente" and of "North-South Dialogue"]

[Text] No political issue has raised as much controversy in Spain and to date in this century as that of its prospective entry into the Atlantic Alliance. And this is not surprising, since it involves the most decisive of undertakings by the nation in the field of contemporary foreign relations. In 1977, Spain joined the European political organization--the Council of Europe--with hardly a perceptible fuss; nor did the decision as to the desirability of entering into the European economic mechanism--the Common Market--generate any dissension. However, the question of Spain's relationship with what is considered Europe's military instrumentality bids fair to becoming the object of a long parliamentary polemic.

For the moment, the issue is becoming politically polarized between Atlanticists and neutralists, with the latter accusing the former of being warmongers and enemies of detente, and waving for their part the banner of pacificism. The truth of the matter is that the road to peace can be accessed from any international position except one, namely, the one now occupied by Spain: isolation. From that position, the possibilities of influencing world developments, disarmament, or the liquidation of blocs, are nil.

Spain cannot expect to reap only advantages from her entry into the Alliance. Problems will ensue from the transition between a lone foreign policy and a joint one: It will be necessary to coordinate positions with countries that may well have different viewpoints from ours, increase our presence in negotiating forums, take decisions with respect to military installations, deal with new solidarities, aids and possible expenditures. And this with no automatic solutions in view for the question of other advantages that, like the recovery of Gibraltar or Spain's access to the EEC, is being habitually raised in connection with entry into NATO.

There are, however, certain errors that must be dispelled. The first of these is to consider the Spain-NATO relationship as a purely military matter that, for good measure, will increase Spain's risk of becoming involved in a nuclear conflict and that will in the end be a very costly adventure without compensatory benefits. A few technical observations are in order on each of these three aspects:

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--The Spain-NATO relationship must not be viewed from a solely military standpoint. It has a strong military underpinning, but it extends to the diplomatic sphere as a whole, enlarging the framework of our political relationships and opening the way decisively toward Spain's incorporation into Europe.

Our entry into NATO would facilitate the diversification of our relations with the Western countries, while at the same time strengthening our friendship with the United States. Among the 16 nations, Spain could easily be the 5th or 6th. In a bilateral agreement with the American superpower, our negotiating position would perforce be a decidedly inferior one.

--Would Spain's entry into NATO increase our chances of becoming involved in someone else's war? Currently, it is not so much a war as a war psychosis that the world must deal with, as a result--an inevitable one at the moment--of an international society based on a cold peace and on a nuclear balance as a deterrent element. It must be added, however, that neither the NATO countries, nor the Warsaw Pact countries, nor the neutrals, nor the nonaligned countries can escape this psychosis.

--As to the cost of the NATO operation, one must be very cautious in commenting, in that it does not make sense at one and the same time to blame the military-industrial complex for raising the standard of living in certain countries and to claim that our Alliance quota will ruin Spain. Suffice it to say that the organization provides for negotiating the terms and conditions of entry--and as of now no two of the 15 countries in NATO have exactly the same statute in this regard--as well as each country's economic participation and even the type of armaments each one is prepared to adopt.

There are rarely any ideal solutions in foreign policy. A world based on genuine peace, without blocs or armaments, is undoubtedly the ideal solution. But in no way is it the foreseeable one, at least within a politically reasonable timeframe. If NATO at one and the same time gives us increased specific weight in our relations with our traditional friends--the Latin American countries--and enables us to dispel misunderstandings with our neighbors to the North as well as to the South, there appears to be little reasonable doubt that on the decision balance the side of the advantages will outweigh that of the disadvantages.

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POLITICAL

SPAIN

PUBLIC OPINION POLL REPORTS SPANIARDS AGAINST ENTRY INTO NATO

Madrid CAMBIO 16 in Spanish 29 Jun 81 pp 50-55

[Article by Jose Manuel Arija]

[Text] The relative majority of Spaniards do not want to enter NATO, consider the issue important enough to be resolved forthwith, and prefer that the question of whether or not Spain will enter NATO be decided by referendum. More than one-third of our citizens, however, do not know what NATO is about.

This may well be the animated image being acted upon at this time with regard to our country by the political and military authorities in the Brussels headquarters, the head office of the Atlantic Alliance, by which name NATO is also known. It is a complicated "dossier" that will give rise to many headaches and that furthermore will require extraordinary persuasive ability on the part of the countries and Spanish political groups that favor Spain's entry.

In an exclusive CAMBIO 16 poll, carried out by the Instituto Especializado Gallup, S.A. during the month of May, the interviewees were asked:

"Personally, and based upon what you know of the issue, are you for or are you against Spain entering NATO?" To this question, 27 percent replied that we should enter, 39 percent said they were against our entering, and 34 percent did not know or did not respond.

Among the two-thirds of the interviewees who replied definitely for or against, there is thus a difference of 12 percentage points in favor of those opposed to entry. This yes-no gap widens in favor of the noes among the men, younger persons and the northern half of the peninsula except Galicia. By social classes, only the upper class exhibits a majority in favor of entry; the rest, and above all the lower middle class, rejects it.

Aside from Galicia and the upper class, only the southern zone is relatively favorable to entry, although in Andalusia half the population does not know what NATO is. There, 45 percent of the women, half the persons over age 55, and 46 percent of the lower class had not heard of NATO or did not respond.

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Key to Chart I:

- | | |
|----------------------|--------------------------|
| The poll | 2. No to NATO entry |
| 1. Yes to NATO entry | 3. Do not know/no answer |

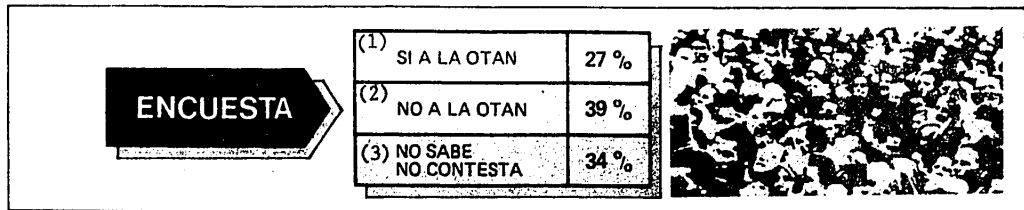
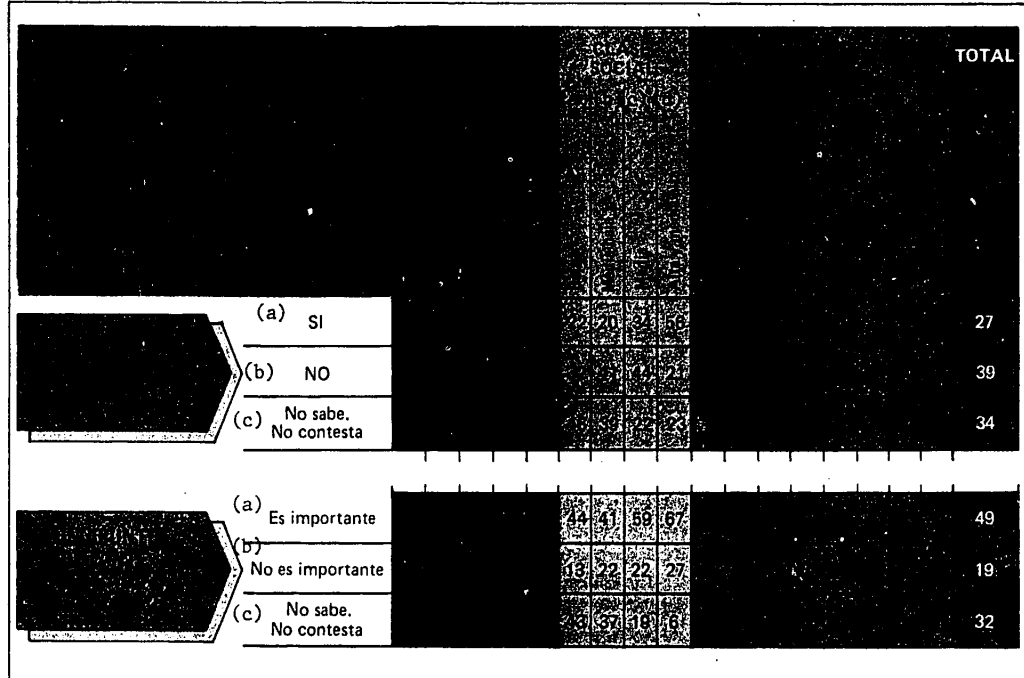
Key to Chart II:

- | | |
|----------------------------------|---|
| 1. Environment | 4. Sex |
| a) Barcelona | a) Male |
| b) Madrid | b) Female |
| c) More than 100,000 inhabitants | 5. Total |
| d) 10,000 to 100,000 inhabitants | |
| e) Less than 10,000 inhabitants | 6. Do you want Spain to enter into NATO? (By percent). |
| 2. Social Class | a) Yes |
| a) Lower | b) No |
| b) Lower middle | c) Do not know/no answer |
| c) Middle | 7. Is entry into NATO an important matter or not? (By percent). |
| d) Upper middle and upper | a) It is important |
| 3. Region | b) It is not important |
| a) North | c) Do not know/no answer |
| b) Northwest | |
| c) Central | |
| d) South | |
| e) East | |
| f) Northeast | |

Key to Chart III:

1. Total
2. CD
3. PCE
4. PSOE
5. UCD
6. Basque Nationalists
7. Catalanian Nationalists
8. Yes or no to NATO entry, by voters of each party (in percent)
 - a) Yes
 - b) No
 - c) Do not know/no answer
9. By what procedure should NATO entry be decided? (In percent)
 - a) By vote of the Cortes
 - b) By referendum
 - c) Do not know/no answer

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Chart
IChart
IIChart
III

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	TOTAL	CD	PCE	PSOE	UCD	NACIONALISTAS VASCOS	NACIONALISTAS CATALANES
(a) SI	27	64	14			20	20
(b) NO	39	15	72			67	71
(c) No sabe. No contesta	34	21	14			13	9

(a) Por votación en las Cortes	12	33	0			15	14
(b) En referendum	69	63	91			74	82
(c) No sabe. No contesta	19	4	9			11	4

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On the whole, the 34-percent national average that did not know or did not respond could be decisive in tilting the national majority for or against our entry into NATO--above all, if the citizens are consulted directly.

According to the poll's findings, 69 percent of the persons interviewed responded that the procedure for deciding the question should be a referendum. Only about 12 percent favored resolving it by vote of the Cortes.

The persons interviewed appear to have a very clear idea as to the alternatives for deciding the issue--referendum or the Cortes--since only 19 percent did not know which of the two should be used, as compared with the 34 percent who did not know the issue involved. It is as if they were saying: "Since I don't know what it is about, let them ask me; that way, they will have to explain it to me; where--as if the Congress of Deputies decides it, I will never know what it is about."

At the request of CAMBIO 16, Gallup's specialized interviewers also asked the persons polled, who were representative of the population as a whole, to what political party they gave their vote in the last elections. We wanted to know the for- and against-NATO picture according to voters' political preferences.

The findings resulting from this question show Democratic Coalition voters radically favoring entry (64 percent), as opposed to the Communist Party voters' furious show against it (72 percent).

As for the socialists, twice as many (45 percent) are against it as are for it (23 percent); and among UCD [Democratic Center Union] voters the largest percentage do not know what NATO is, while only 34 percent favor entry as against 21 percent who oppose it. The voters of the Basque and Catalan Nationalist parties also show strong opposition to entry.

With regard to the method of deciding the yes or no to entry, the voters of all parties are decidedly in favor of the referendum. They all also consider the issue important. Only among the Basques did less than 50 percent rate it important.

[End of report on Gallup poll findings; comments on cost estimates follow]

The Cost

There is no agreement on what it will cost Spain prospectively in terms of money to enter NATO.

The figures being bandied are widely disparate. Some talk of thousands of millions, others say it would cost nothing, and still others say it would actually result in profits.

Some who calculate the cost in terms of thousands of millions of pesetas include in their figures the modernization of weapons and the necessary restructuring of Spain's armed forces. Many others add that this cost must not be included, since our armed forces must in any case be modernized.

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Following are the opinions of the experts consulted by CAMBIO 16:

Guillermo Medina (UCD), chairman of the Defense Committee of the Congress of Deputies: \$15 million.

Spain will have to defray approximately 5 percent of the NATO civil and military budgets, namely, some \$15 million. In the second place, she will have to contribute a negotiable amount to the organization's common infrastructure budget; prospectively, this amount should not exceed \$50 million. In the third place, Spain will have to adjust her defense spending to meet NATO guidelines and recommendations, although these recommendations are applied flexibly, taking into account the economic circumstances of each country. Furthermore, Spain has already for some time been devoting an economic effort to defense--which she would have to continue developing whether or not she enters NATO--that could be adjusted to the organization's recommendations.

Indirectly, Spain could benefit economically from these costs, investments in installations, access to technologies and data, etc., by way of which her net balance in this respect could even be a profit.

In any case, the pro-NATO defense option results considerably more economically viable than a neutralist armed approach.

Fernando Reinlein, DIARIO 16 specialist on defense matters: We would save money.

Figures can be deceiving and juggleable. In any case, it would be a less costly system than neutrality. If those opposed to Spain's entry into NATO fall into the trap of saying it would be costly, they will be serving up on a silver tray a strongly exploitable argument by those who favor entry. It all depends upon the terms and conditions involved in such entry.

Jose Juis Buhigas, secretary of the Communist Parliamentary Group's Defense Matters Area: More expenditures.

Quoting figures on the costs that would be involved in Spain's entry into NATO is at best dicey. There are no objective data on which to base the economic aspects in determinable quantitative terms; such determination must depend on a number of variables directly related to the missions that would be assigned to the Spanish Armed Forces within the framework of the Alliance.

In any case, it is obvious that an increase in expenditures would be involved, not only because additional military functions would have to be undertaken but also because we would have to share in the support of a new bureaucratic-administrative structure that would have to be created for this purpose. Lastly, it must be taken into account that the member countries of NATO have been asked to increase their respective defense budgets by 3 percent of their GNP, a recommendation that, if carried out in our country, would lead to practically doubling the figures now being allocated to defense.

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Luis Solana, socialist spokesman for the Defense Committee of the Congress of Deputies: Independence.

Spain's entry into NATO will cost exactly what the pro-NATO government wants it to cost. Our entry into NATO is a political issue, not a military one nor an economic one. A political gain, where powers like the United States are concerned, is paid for regardless of its cost; even to the extent of making Spain's entry into NATO free. I trust the left will not fall into the trap of a debate on what NATO will cost Spain. The cost of NATO is national independence.

Guillermo Kirkpatrick, deputy secretary general of AP [Popular Alliance] and in charge of international matters: 3,000 million.

The cost of our entry into NATO would not exceed, from the standpoint of expenditures on infrastructure, 3,000 million pesetas, and I would like to draw two comparisons. First, the cost of a normal budget for 1 year for a ministerial department of the Spanish government, which is over 3,000 million. And the second comparison is the money the government will be giving to the labor federations, which is 2,400 million.

Greece, Portugal and Turkey are NATO member countries and are as poor as we or poorer; they were nevertheless able to undergo the cost--a cost, let us remember, that is not an assessment imposed by NATO, but is rather the contribution made by each of the member countries according to its own capabilities.

Enrique Mugica (PSOE [Spanish Socialist Workers Party]), vice chairman of the Defense Committee of the Congress of deputies: \$840 million.

Some commentators favorable to Spain's entry into NATO reduce their cost estimates to incredibly low levels, taking into account only the contribution to the maintenance of the Alliance's bureaucratic headquarters structures. Our membership, however, will require the adaptation of the troops, weapons and logistic materiel of our armed forces, which will mean at minimum, for a reasonable degree of homogeneity, an initial outlay of \$800 million and an annual maintenance cost of \$40 million.

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POLITICAL

SPAIN

MAJOR PARTIES MEET TO RESOLVE AUTONOMY ISSUE

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[Text] After several weeks of negotiations, the autonomy pact has been served up. The territorial configuration of the State of the Autonomies is now a fact. Sixteen communities will comprise the autonomy map, and their respective charters will be approved by 1983. These among others are the principal conclusions that are emerging from the autonomies summit of the four major parties after several weeks of examination of the 22 recommendations made submitted by the team of experts headed by Prof Garcia de Enterrria on the Spanish autonomies question.

Initially, the meeting was a bipartite one between the governing party and the PSOE [Spanish Workers Socialist Party]. But the spectrum was soon enlarged to include the PCE [Spanish Communist Party] and the AP [Popular Alliance], in an endeavor to achieve total harmony in the sensitive matter of the configuration of the autonomies from the standpoing of the adjustments made based on the first Enterrria report.

It was an initiative that drew sharp criticisms from certain sectors of the political rainbow. Particularly harsh were the statements made by the AP leader Manuel Fraga Iribarne in Castellon. According to the AP's president, it is intolerable that after 4 years of proceedings on the autonomies question the government should have found it necessary to solicit the opinion of some technicians on what it has done and on the prospects of actualization. "It is the most glaring revelation of incompetence to have emerged from the history of Spanish governments over the last two centuries."

The most heatedly debated points in the negotiations were the electoral system of the autonomous parliaments and the immunity of their members, the relationships of the autonomous communities to the members of the Cortes, and the constructive vote of censure for the purpose of replacing an autonomous government.

Quadripartite Monopoly

Addressing these focal points of disagreement, the parliamentary representatives quickly reached agreement on particulars such as dates for the holding of regional elections. It was unanimously agreed that elections be held in all autonomous communities at the same time except in Galicia and Andalusia.

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The monopolization of the meetings by the four parliamentary parties drew critical fire from the nation's minority parties, which then balked at joining the autonomy pact. While CD [Democratic Convergence] Leader and President of the Catalanian Generalitat Jordi Pujol was receiving the offer through the government delegate to the principality, Rovira Tarazona, the Basque lendakari, Garaikoetxea, was being summoned personally by telephone by Prime Minister Leopoldo Calvo Sotelo. At the same time, the other parties taking part in the talks decided to consult with their respective regional organizations regarding the agreements reached.

But the participation of the PNV [Basque Nationalist Party] could not be obtained. On the heels of the tense meeting between Garaikoetxea and Calvo Sotelo, the PNV leadership decided it would not take an active part in the matter, on the basis that at that point everything had been agreed and the entry of a Basque representative into the proceedings could only be as a silent guest. The spokesman for the Basque group in the Congress, Marcos Vizcaya, had conditioned its presence on the obtention of guarantees that it would be able to take part in the proceedings preceding any agreements. The PNV's dissidence became more acrid when it learned that the second Enterria report advises the government to increase the tax assessment against the Basque Region to cover the responsibilities the latter does not assume.

While the meetings being held in the Moncloa were in progress, the Congress of Deputies was also receiving the preliminary draft of the Valencia Region's Autonomy Statute as well as that of Castilla y Leon, representing, in the opinion of Minister of Territorial Administration Rodolfo Martin Villa, the first concretization of the Enterria concept.

The Constitutional Committee of the Congress was also concluding its debates on the articles of the Draft Statute for Andalusia, the last of those drawn up under the controversial Article 151. The text of the autonomy statute approved despite the opposing vote of the PSA [Andalusian Socialist Party] will be submitted to referendum before 25 October this year. The provincial composition of the 109-member Andalusian Parliament will consist of 18 deputies for Seville, 15 for Cadiz, 13 for Cordoba, Jaen and Granada, and 11 for Almeria and Huelva.

Clearly, the fourth meeting between Prime Minister Leopoldo Calvo Sotelo and the Basque lendakari Carlos Garaikoetxea did nothing to narrow the areas of disagreement between Madrid and Vitoria.

The Lendakari's Visit

After a 1 and 1/2-hour meeting last Thursday the 25th, Calvo Sotelo accompanied the Basque lendakari to the door of Moncloa Palace, where the latter, with a gesture as if lost in thought and a put-on smile on his lips suited to the occasion, waited until he reached the bottom of the stairs to respond to the questions of the bevy of reporters present who had been awaiting the outcome of the meeting.

Despite the good intentions expressed by both political leaders, issues filling Garaikoetxea's briefcase and important to the Basque government, such as the

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Quota Law under the Economic Accords, the schedule and speeding up of transfers, the Draft Autonomy Law, and the Draft Basic Law Regulating Local Administration, were not satisfactorily resolved.

The lendakari nevertheless emphasized the importance of these meetings, saying, "It is now a matter of record--and in this sense I think communication is always helpful--that once again the Spanish prime minister has reaffirmed the government's intention to advance the progress of the autonomy proceedings."

It is also evident that, from the Basque viewpoint, the PNV leaders have a different interpretation of the autonomy concept's application and development. The safeguarding of the Basque institutions recognized in the Statute of Autonomy is a daily-recurring leitmotiv that the PNV leaders are in agreement in bringing out on every possible occasion, as did Xabier Arzallus, president of the Euskadi Buru Batzat, last Sunday 28th during the inauguration of the batzoki (public housing) in the Basque locality of Ea: "In Madrid, they think they have given us too much; but 4 years ago, no one thought we would obtain our autonomy and economic accords for the Basque Region. We have come a long way in a short time."

In this continuing tug-of-war between Madrid and Vitoria, and while the nation's major political parties are trying to draw up a common strategy based on the report submitted by Prof Garcia Enterria, political sectors do not hesitate to accuse the PNV of mongering political frustrations, lamenting in turn the impatience and defeatism being exhibited by the Basque executive body. To cut short all types of interpretations, Carlos Garaikoetxea himself, taking advantage of his lightning trip to Madrid, sought to dot the i's, asserting: "This theme of frustration-mongering makes no sense. We certainly have no interest in mongering frustration, considering that in so doing we would be saying that our political strategy is not being very successful. In this regard, we are obliged to tell our people the truth whether it be pleasant or unpleasant."

The government delegate to the Basque Region, Marcelino Oreja, who 24 hours before had gone to Madrid to prepare with Calvo Sotelo for the meeting with the Basque lendakari, said, for his part, "The current difficulties are to be expected. They are inherent in everything that is in the process of negotiation, in the transfer of competencies representing 30 percent of the national budget. But despite the difficulties, there is on the part of the nation's government a policy-based intent to go forward with and complete the process of transfers to the Basque Region in accordance with the Spanish Constitution and the Autonomy Statute."

President Garaikoetxea expressed himself in the same vein, and Madrid and the Basque government have agreed to meet again in 1 month's time--a month that should at least enable the UCD [Democratic Center Union] government to put the finishing touches to its intentions, if a definitive agreement can be reached among the various political organizations on the autonomy issue, an agreement based on the Enterria report.

Only hours before Carlos Garaikoetxea left for Madrid, implacable terrorism struck again, felling two victims in Guipuzcoa.

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Inaki Ibarguchi, a PNV militant and member of the Nationalist Junta of Miravalles (Biscay), and Juan Manuel Martinez Castanares, hit by 10 and 23 bullets respectively, fell mortally wounded in Tolosa, after having lunched at the Neti Alai bar as they had been doing for the past few days before starting their work as representatives, selling cassettes and Basque encyclopedias door-to-door.

A third person, Pedro Martinez Castanares, a member of the Communist Party brother of one of the slain men, was also wounded, hit by eight bullets. One week later, doctors are still doing the impossible in an attempt to save his life.

There is great confusion, however, as to responsibility for the shootings. Eyewitnesses say they distinctly heard the perpetrators shout "Gora ETA [Basque Fatherland and Liberty Group] militarra," and for the police there is no doubt, based on the empty shells they recovered bearing "Gecco Parabellum, 9-mm" markings as well as on the manner in which the terrorist commando action was carried out, that the perpetrators belong to the military branch of the ETA and that they mistook the three students for police inspectors who had been keeping a lookout on the Beti Alai bar for the past several weeks.

The Basque government's adviser for interior expressed the same view, saying: "I am personally convinced it was the military ETA." However, the Basque organization itself, through the daily newspaper ENGIN, denied categorically having taken part, while the Spanish Basque Battalion and the Triple A quarreled over their conflicting claims to paternity in the matter, which nevertheless did not convince the Basque media.

The reactions of the Basque political parties were not long in making themselves felt. The PNV, the PSE [Spanish Socialist Party], the PCE [Spanish Communist Party] and Euskadiko Ezkerra, excluding once again the Basque UCD, held a most urgent meeting in Bilbao and agreed on a 10-minute strike throughout the Basque Region, under the motto "For peace, freedom and democracy, and against violence and terrorism."

A Strike Call Without Echo

Either through haste or through lack of communication, the response to the strike call had a scattered echo in the Basque provinces. It was louder in the main streets of the cities than in the work centers. In Vitoria as in Bilbao and San Sebastian, the various municipal corporations, delegations and political leaders of the convoking organizations took to the streets, interrupting traffic on Bilbao's Gran Via and San Sebastian's Avenida de la Libertad. In Bilbao and on the heels of the symbolic strike, Xabier Arzallus stated: "The adjectives abound, since every life is equal in value to every other one, and no one has the right to take it away, but a father is more grief-stricken by the death of his own son, and a party by the death of one of its own."

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